

HLIB Research

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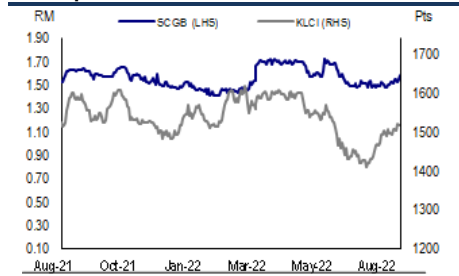
BUY (Maintain)

Target Price: RM1.90
Previously: RM1.84
Current Price: RM1.55

Capital upside	22.6%
Dividend yield	3.6%
Expected total return	26.2%

Sector coverage: Construction

Company description: SunCon is involved in construction and precast products.

Share price


Historical return (%)	1M	3M	12M
Absolute	2.6	-0.8	0.5
Relative	-3.3	2.5	0.5

Stock information

Bloomberg ticker	SCGB MK
Bursa code	5263
Issued shares (m)	1,289
Market capitalisation (RM m)	2,037
3-mth average volume ('000)	102
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	NA

Major shareholders

Sunway Berhad	64.5%
EPF	9.2%

Earnings summary

FYE (Dec)	FY21	FY22f	FY23f
PATMI - core (RM m)	145.3	137.8	138.1
EPS - core (sen)	11.2	10.7	10.7
P/E (x)	13.8	14.5	14.5

Sunway Construction Group

Strong numbers

SunCon's 1HFY22 earnings of RM72.1m (156.1% YoY) beat both our and consensus expectations at 57%/54% of forecasts. Going forward, SunCon is poised to benefit from: i) MRT3 jobs, ii) sizable factory/data centre job and iii) RM500m worth of in-house jobs. ICPH, due to commence operations in 2H22 could leverage on strong backend loaded BTO launches. Increase FY22 earnings forecasts by 8.2%. Maintain BUY with higher TP of RM1.90. SunCon is well positioned to partake in various infrastructure rollouts ahead. Its healthy balance sheet with net cash position of RM0.30/share (including financial investments), track record and strong support from parent-co.

Beats expectations. SunCon reported 2QFY22 results with revenue of RM557.9m (-10.7% QoQ, 48.7% YoY) and core PATAMI of RM37.6m (8.9% QoQ, 374.5% YoY). This brings 1HFY22 core PATAMI to RM72.1m, increasing by 156.1%. The results beats both our and consensus expectations coming in at 57%/54% of full year forecasts respectively. 2QFY22 has been adjusted for RM5.3m worth of net expenses with RM6.3m receivables impairment being the main line item.

Deviation. The results beat were top-line driven with stronger than expected construction billings seen.

Dividends. DPS of 3.0 sen was declared for the quarter (1HFY22: 3.0 sen; 1HFY21: 1.25 sen).

QoQ. Core PATAMI increased by 8.9% (excluding EIs as mentioned above) offsetting a -10.7% decline in revenue. While both construction and precast segments saw a sequential fall in revenue, the better performance was due to higher core construction and precast margins. Construction billings were lower this quarter resulting from higher recognition of projects nearing completion in the immediate preceding quarter.

YoY/YTD. Core PATAMI increased by 374.5% and 156.1% on a YoY and YTD basis brought about by significantly higher revenue contribution from both segments as 2QFY21 was marred by MCO3.0 implemented starting June-21.

Orderbook. SunCon's latest outstanding orderbook stands at RM4.2bn translating into a decent 2.5x cover. Contract replenishment has lagged expectations with only RM536m replenished so far. The only notable contract secured in 2QFY22 is the LRT3 GS06 subcontract works worth RM191m. SunCon is in the midst of tendering for sizable factories and data centre jobs which are worth RM1.0-1.5bn individually. Elsewhere, SunCon has ~RM500m worth of in-house jobs that could also be converted into awards this year. While we believe volatile nature of costs movement through the year has negatively impacted award conversion, we believe that SunCon could also be preserving balance sheet space to bid for the MRT3 turnkey package. If unsuccessful, the company would still be a strong subcon candidate. All in all, management is maintaining their orderbook replenishment target of RM2.0bn (HLIB: RM1.6bn).

Precast. Costs pressure on the precast segment is showing signs of dissipating, thanks to recent drop in steel prices. Adding to this, SG's government move to co-share 50% of the increase in steel and precast components would benefit its precast division moving forward. SunCon's 49% owned ICPH precast plant in SG will be operational by 2H22 representing an effective 29% increase to existing capacity. Demand for SunCon's precast could remain robust considering HDB's plan to launch up to 23k BTO units in 2022, a 35% increase from 2021 launch of 17k units. YTD, HDB has launched 8.5k units with 4.9k planned for Aug-22. The remainder 9.5k will be launched in Nov-22.

Forecast. Increase FY22 earnings forecasts by 8.2% after increasing burn rate and marginal increase in margins.

Maintain BUY, TP: RM1.90. Maintain BUY with higher TP of RM1.90 post-earnings adjustments. TP is derived by pegging mid FY22 EPS to 15x ex-cash P/E. SunCon is well positioned to partake in various infrastructure rollouts ahead. Its healthy balance sheet with net cash position of RM0.30/share (including financial investments), track record and strong support from parent-co. Risks: prolonged elevated materials prices, election risks and labour shortage.

Figure #1 Quarterly results comparison

FYE Dec (RM m)	2QFY21	1QFY22	2QFY22	QoQ (%)	YoY (%)	1HFY21	1HFY22	YoY (%)
Revenue	375.3	624.7	557.9	(10.7)	48.7	830.5	1,182.5	42.4
EBIT	6.0	42.9	47.7	11.0	696.5	32.1	90.6	182.3
Finance income	1.4	2.2	3.2	42.8	131.0	2.1	5.4	153.5
Finance cost	(1.0)	(1.2)	(3.2)	175.9	219.7	(2.6)	(4.3)	67.9
PBT	9.1	47.2	48.3	2.3	429.6	36.4	95.4	162.5
PAT	5.5	35.6	38.9	9.2	604.4	25.8	74.6	188.6
Core PATMI	7.9	34.5	37.6	8.9	374.5	28.2	72.1	156.1
Reported PATMI	8.3	34.5	32.3	(6.4)	288.1	28.6	66.8	133.9
Core EPS (sen)	0.6	2.7	2.9	8.9	374.5	2.2	5.6	156.1
EBIT margin (%)	1.6	6.9	8.5			3.9	7.7	
PBT margin (%)	2.4	7.6	8.7			4.4	8.1	
PATMI margin (%)	2.1	5.5	6.7			3.4	6.1	

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f
Cash	200.1	98.8	126.6	184.3	166.8
Receivables	904.9	660.8	987.3	986.0	835.0
Inventories	34.3	46.2	25.1	25.3	21.1
PPE	107.3	124.7	105.4	88.3	69.3
Others	659.6	933.7	947.0	970.1	1,001.3
Assets	1,906.1	1,864.2	2,191.5	2,254.1	2,093.4
Debts	300.9	237.9	366.7	370.1	307.7
Payables	947.4	873.2	1,004.6	1,013.8	843.0
Others	19.1	36.3	36.4	36.4	36.4
Liabilities	1,267.5	1,147.4	1,407.7	1,420.3	1,187.1
Shareholder's equity	636.9	699.1	766.1	816.2	888.7
Minority interest	1.7	17.6	17.7	17.7	17.7
Equity	638.6	716.8	783.8	833.8	906.3

Cash Flow Statement

FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f
Profit before taxation	120.3	185.0	187.1	171.6	164.9
Depreciation & amortisation	33.4	27.4	39.3	37.1	38.9
Changes in working capital	0.9	157.9	(174.0)	10.3	(15.5)
Share of JV profits	(0.1)	(13.3)	(13.3)	(23.1)	(31.2)
Taxation	(28.8)	(41.5)	(48.4)	(32.7)	(29.4)
Others	(37.9)	(76.8)	-	-	-
Operating cash flow	87.8	238.7	(9.3)	163.2	127.8
Net capex	(1.9)	(40.6)	(20.0)	(20.0)	(20.0)
Others	(171.3)	(133.4)	-	-	-
Investing cash flow	(173.2)	(174.0)	(20.0)	(20.0)	(20.0)
Changes in borrowings	14.7	(63.0)	128.8	3.4	(62.3)
Issuance of shares	-	-	-	-	-
Dividends paid	(62.3)	(77.0)	(71.7)	(88.9)	(63.0)
Others	(99.7)	17.7	-	-	-
Financing cash flow	(147.3)	(122.4)	57.1	(85.5)	(125.3)
Net cash flow	(232.7)	(57.7)	27.8	57.7	(17.5)
Forex	-	-	-	-	-
Others	(259.9)	(43.5)	-	-	-
Beginning cash	692.6	200.1	98.8	126.6	184.3
Ending cash	200.1	98.8	126.6	184.3	166.8

Income Statement

FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f
Revenue	1,552.7	1,729.2	2,252.3	2,249.4	1,904.8
EBITDA	143.2	199.6	215.0	192.5	178.7
EBIT	109.7	172.2	175.7	155.3	139.8
Net finance income/ (cost)	10.5	(0.4)	(1.9)	(6.9)	(6.0)
Associates & JV	0.1	13.3	13.3	23.1	31.2
Profit before tax	120.3	185.0	187.1	171.6	164.9
Tax	(27.8)	(41.5)	(48.4)	(32.7)	(29.4)
Net profit	92.5	143.5	138.7	138.9	135.5
Minority interest	(0.7)	1.8	(0.9)	(0.8)	(0.7)
Core PATAMI	91.9	145.3	137.8	138.1	134.7
Exceptional items	(19.2)	(32.8)	-	-	-
Reported earnings	72.7	112.6	137.8	138.1	134.7

Valuation & Ratios

FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f
Core EPS (sen)	7.1	11.2	10.7	10.7	10.4
P/E (x)	21.8	13.8	14.5	14.5	14.9
EV/EBITDA (x)	14.7	10.6	9.8	10.9	11.8
DPS (sen)	4.0	6.0	5.5	6.9	4.9
Dividend yield	2.6%	3.8%	3.6%	4.4%	3.1%
BVPS (RM)	0.5	0.5	0.6	0.6	0.7
P/B (x)	3.1	2.9	2.6	2.5	2.3
EBITDA margin	9.2%	11.5%	9.5%	8.6%	9.4%
EBIT margin	7.1%	10.0%	7.8%	6.9%	7.3%
PBT margin	7.7%	10.7%	8.3%	7.6%	8.7%
Net margin	6.0%	8.3%	6.2%	6.2%	7.1%
ROE	14.6%	21.8%	18.8%	17.5%	15.8%
ROA	4.6%	7.1%	6.4%	5.8%	5.7%
Net gearing	15.8%	19.9%	31.3%	22.8%	15.9%

Assumptions

FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f
Construction	2,281	1,149	1,200	3,000	2,000
Precast	38	296	400	200	200
Total new job wins	2,319	1,445	1,600	3,200	2,200

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BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

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UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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